

**Tammye Trevino
Administrator
Rural Housing Service
United States Department of Agriculture
Before the
House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
July 15, 2009**

Chairwoman Waters, Ranking Member Capito, and members of the Committee, thank you for the opportunity to appear before you to discuss multi-family housing preservation in rural America. This is a critically important issue and in broad terms we believe that the strategy outlined in H.R. 2876 and in the discussion draft before the Committee is promising. I would like to thank all those involved with this legislation, both in this session of Congress and in previous session, for your hard work. I am pleased to testify before you today on behalf of Secretary Tom Vilsack, Under Secretary Dallas Tonsager, and USDA Rural Development's Housing Programs, and look forward to working with you and the Committee to further the preservation agenda.

At USDA, we advocate a strong national housing policy that both supports the American dream of homeownership and provides affordable rental opportunities. I would also note that as the number of privately-financed foreclosures continues to increase in these difficult economic times, more Americans, especially in rural areas, are relying on rental properties than in years past.

We are greatly encouraged by the committee's focus on legislation that will create national housing preservation standards for all government agencies that specialize in housing assistance, especially in rural communities.

For 60 years, our rural housing programs have provided invaluable support for low and very-low income families in rural areas. These programs currently include the Section 502 Single Family Housing Direct and Guaranteed Loan programs, the Section 515 Rural Rental Housing Direct Loan program, and the Section 538 Rural Rental Housing Guaranteed Loan program. I look forward to working closely with Secretary Vilsack, Congress, and the administration to strengthen these, and especially the direct loan programs.

The USDA rural housing portfolio as of May 2009 accounts for over 650,500 direct and guaranteed single- and multi-family loans at a value of more than \$53 billion. This includes 332,000 single-family direct loans for \$14 billion; 293,000 single-family guaranteed loans for \$28 billion; 25,500 multi-family direct loans for \$11 billion; and 288 multi-family guaranteed loans for \$350 million.

In an era in which private sector foreclosure numbers are higher than they have been in a generation, the Rural Housing Service has experienced low default and foreclosure rates. In 2009, the Rural Housing Service direct loan program has 10,477 foreclosures in process, less than 50 percent of which we estimate will result in actual foreclosures as we work with our homeowners to help them stay in their homes. The foreclosures in process

represent approximately 3.4 percent of the agency's 502 direct Single Family portfolio. In May 2009, the Mortgage Bankers Association reported that 3.85% of borrowers nationally were facing foreclosure. In addition to our success in mitigating foreclosures, thus far in Fiscal Year 2009 we have funded over 86,000 loans and on July 1st we hit the \$10 billion mark in the Single Family Guaranteed housing program. Moreover, we have funded 8,000 Section 502 Single Family direct loans totaling over \$940 million in 2009, almost 20 percent of which were funded through the Recovery Act.

In 2008, our Section 538 Guaranteed Rural Rental Housing Program made loan guarantee commitments to build or repair 118 properties using \$132 million in loan guarantees. These commitments have or will generate a total of more than \$660 million in construction activity building or repairing 5,457 apartments in rural America. Of this total, more than 40 percent was used to preserve existing section 515 properties. The Section 538 guaranteed multi-family housing program has attracted more than four dollars of investor equity or other funding to these transactions for every one dollar of loan guarantee commitment. The government's direct one-time cost to build or repair these apartments is approximately \$2,300 per apartment.

The \$11.5 billion direct multi-family housing portfolio financed by USDA Rural Development has over 15,900 Section 515 rural rental housing properties financed primarily by 50-year 1 percent loans and Section 514/516 farm labor housing properties financed by 1 percent loans and grants. The two programs have been providing decent, safe, and sanitary affordable rental housing since the 1960's to countless rural Americans.

Rural Development multi-family housing programs were established because sufficient access to capital and credit was not available to serve the needs of very low-income renters who wished to live and work in rural communities. Although the overall capacity of the American credit system has grown since the middle of the last century, low-income rural residents continue to be underserved. The difficult economic times we are now experiencing add to the stress.

We therefore face two immediate challenges. The first is the ability to provide new affordable rental housing units. The second is the rehabilitation and revitalization of a critically important but now aging rural rental portfolio. We are here today to discuss the latter.

The Committee raised six specific questions, and I would like very briefly to address each of them in turn:

- How will the Housing preservation and Tenant Protection Act improve affordable housing preservation policy at the federal, state and local level?

While we are still studying the proposed legislation and may have questions regarding the implementation of certain aspects of it, the proposed legislation appears to provide the Agency with a number of revitalization tools that would provide cost effective preservation options for the existing multi-family housing rental housing portfolio so that these projects can continue to serve their communities throughout rural America. The proposed legislation contains voucher authority that will help protect tenants in properties that leave the program.

- What are the benefits of preserving existing affordable housing compared with new construction?

The benefits of preserving existing housing are clear; it is less expensive, roughly one-third to one-quarter the cost of new construction; it can be accomplished faster, with site and acquisition issues already resolved; it presents many opportunities to

upgrade energy conservation; and it minimizes the NIMBY effect since most communities welcome an upgrade to existing rental properties in place.

- What type of tools or statutory authority are needed for RHS to better assist states, local government and preservation oriented entities in preserving existing affordable housing?

In general, the tools provided by the proposed bill would help RHS and its partners revitalize the existing portfolio. However, we would like to work with the Committee to ensure that the tools will provide the best possible options to support these critical revitalization efforts.

- Please describe any statutory, regulatory (including staffing levels), fiscal, and/or legal barriers limiting or prohibiting preservation transactions.

Currently, our revitalization program is authorized only as a demonstration program, not in permanent authorization legislation. The lack of permanent authorization makes it difficult for the agency to promulgate permanent program regulations and to address long term issues, including the length of vouchers. Further, we need to determine the resources needed to accomplish the goals we establish and we will develop those estimates during the budget formulation process. Specifically we need to examine what types and amounts of resources will be needed to work with a larger portfolio level of transactions, assure quality control, and provide for consistent processing throughout the country.

- Please discuss the impact if any of the foreclosure crisis on RHS assisted multi-family properties and the impact of the foreclosure crisis on RHS assisted properties that have been at risk of foreclosure.

We have not seen an increase in the foreclosure rate of RHS assisted multi-family properties. We know that there are some individuals who have lost their homes in the current economic downturn who have applied for housing,

- Please share any other views you may have on the discussion draft.

Rural Development's Section 514 and 516 programs, providing for financing of farm labor housing, are important components of our housing portfolio. We look forward to working with the Committee in addressing the preservation needs of these rental housing resources as well.

The inclusion of voucher authority in the proposed legislation will help protect tenants in properties that leave the program. At the present time, in a Section 515 property where

the mortgage is prepaid either by borrower action or through foreclosure, the property owner can increase rents to market rates. At the same time, by leaving the 515 program, the property is no longer eligible for Rental Assistance. The current Rural Development demonstration voucher program provides protection against rent increases or the tenant having to relocate as a result of prepayment or foreclosure.

Our demonstration voucher program is in its fourth year and has been highly successful. Over the last three years, more than \$13.5 million in voucher funds have been obligated and over 3,500 new and renewed vouchers have been provided to rural residents. Over 90% of voucher recipients have elected to remain in the property they have called home for a period of years. The intention behind this “soft landing” voucher approach was to provide a simple, direct and responsive solution to an immediate and growing problem without duplicating other federal rental assistance programs.

We also continue on a demonstration basis to carry out many of the objectives authorized by the proposed bill in regard to a long-term viability plan. In our multi-family housing units, we are conducting physical needs assessments with an emphasis on our older properties. We also offer a range of financial tools that include loan restructuring and rent adjustments. This approach has helped to contain growing foreclosure and default rates in these tough economic times.

The early results of our restructuring demonstration are extremely encouraging. When the initial application window closed on April 17, 2006, approximately 4,000 Section 515

property owners applied for debt restructuring. This represents 25 percent of the total portfolio. In the three full years of implementation as a demonstration program, USDA has obligated over 300 transactions that will improve the housing conditions of 10,000 tenants. These results indicate a tremendous interest among the ownership community in seeking a resolution to the revitalization challenge.

In addition to rural vouchers and debt restructuring, in order for us to successfully carry out our goals, we must also work closely with the other agencies that provide government assisted housing. The proposed legislation makes that goal easier by introducing the concept of a national database that will give us access to the information needed to track America's affordable housing stock.

We realize that the rehabilitation and capital needs of the portfolio are significant. However, at approximately \$30,000 per unit, the cost effective rehabilitation tools and our ability to leverage third party financing have actually led to reductions in post-transaction rents, rather than modest increases as first anticipated. The revitalization program has also been designed to provide financing options to both sophisticated developers who work with third party financing and small owners who need affordable, accessible, and relatively simple financing options.

Finally, in cooperation with Secretary Shaun Donovan and the Department of Housing and Urban Development, Secretary Vilsack, Under Secretary Tonsager, and I will ensure

that information regarding any covered multi-family properties will be available to the public within the 18-month period after the enactment of this legislation.

Madam Chairwoman, we applaud the efforts of this legislation to include more property owners in this national preservation effort. It is my goal to assist Secretary Vilsack and President Obama in working with the Committee and our public and private partners to spur economic growth and create a lasting foundation in the heart of rural America.

I was born, raised, and lived most of my life in rural south Texas. I have worked and advocated for the development of rural communities for most of my career. I understand the challenges facing rural communities and the struggles that many families in rural America face every day.

Thank you for allowing me to share our Department of Agriculture perspective as you address this important issue. I am available to answer your questions now or at any time in the future.